

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02

L-03 NSC-05 PA-01 PRS-01 SS-15 DOTE-00 /096 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7481

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E.O. 11652: N/A

TAGS: ELAB, PINT, UK

SUBJECT: THE PAINFUL SIDE EFFECTS OF CHRYSLER "OPERATION"

SUMMARY - THE DECISION BY THE GOVERNMENT TO PROP UP A
VERY SICK CHRYSLER OPERATION IN THE UK -- ALTHOUGH SAV-
ING, FOR THE MOMENT, A SUBSTANTIAL NUMBER OF JOBS ESPE-
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CIALY IN POLITICALLY SENSITIVE SCOTLAND -- MAY RESULT

IN SOME VERY PAINFUL SIDE-EFFECTS. THE DECISION IS SAID TO FLY IN THE FACE OF A "THINK TANK" REPORT OF THE CENTRAL POLICY REVIEW STAFF WHICH REPORTEDLY SUGGESTS THAT THE BRITISH ECONOMY CAN SUPPORT ONLY TWO AUTO COMPANIES - BRITISH LEYLAND AND FORD. IT WILL MAKE THE TASK OF "DEMANNING" FOR BRITISH STEEL AND BRITISH RAIL MUCH MORE DIFFICULT. AND IT WILL RAISE SERIOUS QUESTIONS, AS THE SECRETARY OF STATE FOR INDUSTRY ERIC VARLEY WAS REPORTED TO HAVE DONE BEFORE HE ACQUIESCED IN THE CABINET DECISION

STRATEGY." TODAY AS THE COMMONS DEBATES THESE PROPOSALS, THERE IS AN OUTSIDE CHANCE THAT THE PLAN MAY NOT BE APPROVED. END QUMMARY.

1. IN A SURPPISING TURNABOUT ON FRIDAY, DECEMBER 12, AFTER A 3 1/2 HOUR MEETING, THE CABINET AGREED TO RECOMMEND TO THE PARLIAMENT TODAY (DECEMBER 16) A 180 MILLION POUND PLAN TO RESCUE CHRYSLER, WITH A NUMBER OF FEATURES, INCLUDING REDISTRIBUTION OF WORK ON EXISTING AND NEW CAR MODELS AMONG SEVERAL PLANTS (RYTON, STOKE, DUNSTABLE AND LINWOOD) -- A PROGRAM WHICH IS EXPECTED TO SAVE ABOUT 19,000 JOBS OUT OF A TOTAL OF 25,000 WORKING DIRECTLY IN THE CHRYSLER NETWORK AND MANY MORE INDICRECTLY. THESE PROPOSALS, HOUEVER, REPORTEDLY DO NOT STIPULATE THAT THE GOVERNMENT RECEIVE ANY "EQUITY" IN THE COMPANY IN RETURN FOR ITS FINANAIAL ASSISTANCE.

2. THERE IS LITTLE DOUBT THAT A MAJOR FACTOR IN THE DECISION TO SAVE CHRYSLER IN SUCH A SUBSTANTIAL WAY WAS NOT ONLY THE RESULT OF THE GENERAL FEAR OF STIMULATING FURTHER UNEMPLOYMENT AS WELL AS THE CONSEQUENT FINANCIAL BURDEN OF SOCIAL SECURITY PAYMENTS, BUT THE MORE SPECIFIC CONCERN TO SAVE THE LINWOOD PLANT IN SCOTLAND. THE DEMISE OF THE SCOTTISH PLANT WOULD HAVE HAD VERY NEGATIVE POLITICAL EFFECTS FOR THE LABOR PARTY IT WAS BELIEVED, FURTHER IMPROVING THE SCOTTISH NATIONAL OARTY'S (SNP) POLITICAL PROSPECTS. (AN IMPORTANT OFFICIAL OF BRITISH LEYLAND, WITH WHOM WE SPOKE, REACTED BITTERLY TO THE CABINET DECISIOL. HE SAID: "NOW THERE WILL BE TWO FIRMS AIDED BY THE GOVERNMENT WHICH WILL BE COMPETING WITH EACH LIMITED OFFICIAL USE

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OTHER. UNDOUBTEDLY, THE GOVERNMENT MADE A NARROW POLITICAL DECISION TO SAVE THE SITUATION IN SCOTLAND.")

3. TOM JACKSON, GENERAL SECRETARY OF UNION OF POST OFFICE WORKERS, AND A MEMBER OF THE TUC ECONOMIC COMMITTEE, TOLD US HE THOUGHT THE CABINET DECISION "WAS A MISTAKE," ALTHOUGH HE BELIEVED THAT THE GOVERNMENT WOULD HAVE ENOUGH VOTES IN PARLIAMENT TO CARRY IT. LATER, HOWEVER,

OPPOSITION IN PARLIAMENT APPEARED TO BE GROWING. JACKSON
THOUGHT THAT THE DECISION WILL SATISFY NEITHER THE
PARTY'S LEFT-WING, INCLUDING SUCH MEN AS ERIC HEFFER,
WHO ARE VERY DISTURBED OVER THE GOVERNMENT'S FAILURE TO
OBTAIN "EQUITY" IN THE COMPANY IN RETURN FOR ITS FINAN-
CIAL AID -- NOR THOSE ON THE RIGHT, WHO ARE OPPOSED TO
IT ON GROUNDS THAT IT NEGATES THE GOVERNMENT'S "NEW IN-
DUSTRIAL STRATEGY" UNVEILED AT CHEQUERS WHICH WAS BASED
ON LONG TERM TIABILITY. TO BE SURE, NOT ALL TUC LEADERS
HAVE EXPRESSED THE SAME VIEW AS JACKSON. JACK JONES, FOR
EXAMPLE, TOLD REPORTERS YESTERDAY AS HE WAS ABOUT TO MEET
ERIC VARLEY TO DISCUSS THE CHRYSLER BAIL-OUT: "WE WANT
AS MANY JOBS AS WE CAN GET FOR OUR MEMBERS."

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4. BUT THERE IS ANOTHER PROBLEM. THE CABINET DECISION COMES AT A TIME WHEN UNIONS INVOLVED ARE BITTER ABOUT THE PROPOSED CUTS IN OTHER MAJOR AREAS -- ESPECIALLY STEEL AND RAILS. BRITISH STEEL IS PROPOSING SHARP CUTS
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WHICH BILL SIRS, GENERAL SECRETARY OF THE IRON AND STEEL TRADES CONFEDERATION, ESTIMATES WILL INVOLVE THE LOSS OF ABOUT 40,000 HOBBS. BRITISH RAIL IS FACING A SIMILAR CONFRONTATION WITH ITS UNIONS OVER LARGE SCALE CUTS IN RAILROAD SERVICES WHICH THE UNIONS ESTIMATE WILL REDUCE THE WORK FORCE IN THE LONG TERM IN THE INDUSTRY FROM 256,000 TO 95,000 WORKERS. SURELY, THE WORKERS IN THESE INDUSTRIES ARE LIKELY TO DRAW A MORAL FROM THE CHRYSLER DECISION AND, AT THE LEAST, RESIST MANPOWER REDUCTIONS WITH GREAT VIGOR.

5. THE OUTLOOK IN PARLIAMENT IS DECIDEDLY HOSTILE TO THE GOVERNMENT'S PLAN TO SAVE CHRYSLER. ANSWERING PARLIAMENTARY QUESTIONS DECEMBER 15, INDUSTRY SECRETARY VARLEY WAS GIVEN A VERY HARD TIME BY CONSERVATIVE SPOKESMEN ON INDUSTRY AND BACKBENCHERS. HE REFUSED, HOWEVER, TO BE

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DRAWN OUT ON THE GOVERNMENT'S PLANS, ARGUING THAT NEGOTIATIONS HAD NOT BEEN COMPLETED AND SUGGESTING THAT PRESS ACCOUNTS OF THE AGREEMENT WERE NOT ENTIRELY ACCURATE. VARLEY WAS ALSO HECTORED FROM THE LABOR BENCHES. AS INDICATED ABOVE, LABOR LEFT-WINGERS OPPOSE THE GOVERNMENT'S PLAN BECAUSE IT WILL NOT GIVE THE GOVERNMENT AN EQUITY HOLDING IN THE CORPORATION AND THEREFORE REPUDIATES THE PARTY MANIFESTO. INDEED, THE PRESS HAS SPECULATED THAT AS MANY AS 15 MEMBERS OF TRIBUNE GROUP MIGHT ABSTAIN, EITHER ON THE INITIAL VOTE ON THE PLAN OR ON SUBSEQUENT FUND ALLOCATIONS -- WE BELIEVE THIS IS UNLIKELY, HOWEVER, ASSUMING TRANSPORT UNION LEADER JONES CONTINUES TO ENDORSE THE PLAN. LABOR RIGHT-WINGERS, TOO, OBJECT TO THE GOVERNMENT'S PROPOSAL, SEEING IT AS A REPUDIATION OF THE NEW INDUSTRIAL STRATEGY. GIVEN THE EXPECTED CONSERVATIVE (AND LIBERAL) OPPOSITION, IT SEEMS TO US UNLIKELY THAT

THE LEFT AND RIGHT WINGS OF THE LABOR PARTY WOULD LET THE
GOVERNMENT DOWN,THOUGH THEY WILL CERTAINLY ENTER THE DI-
VISION LOBBY WITH GREAT RELUCTANCE, PERHAPS WITH THE
EQUALLY RELUCTANT SUPPORT OF THE SNP WHICH CAN HARDLY
AFFORD TO VOTE AGAINST SAVING CHRYSLER'S PLANT IN SCOT-
LAND.

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